

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Isabella County Medical Care Facility	County Isabella
Audit Date September 30, 2003	Opinion Date February 3, 2004	Date Accountant Report Submitted to State: March 9, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

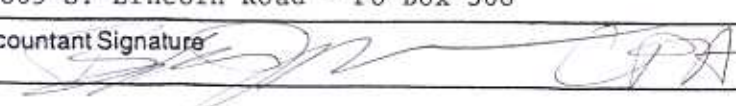
Certified Public Accountant (Firm Name)  
Page, Olson & Company, P.C.

Street Address  
2865 S. Lincoln Road - PO Box 368

City  
Mt. Pleasant

State  
MI

ZIP  
48804-0368

Accountant Signature  


MEDICAL CARE FACILITY

ISABELLA COUNTY

AUDITED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2003 AND 2002

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

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MEDICAL CARE FACILITY  
ISABELLA COUNTY  
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

FAMILY INDEPENDENCE AGENCY (FIA) BOARD

Eileen Rau	Chairperson
Michael Mills	Vice-Chairperson
C. A. Koester	Member

MEDICAL DIRECTOR  
Michael Gross, M.D.

ADMINISTRATOR  
John P. Riley, Jr.







PAGE

OLSON &amp;

COMPANY P.C.

INDEPENDENT AUDITORS' REPORT ON  
GENERAL-PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTAL FINANCIAL INFORMATION

February 3, 2004

Family Independence Agency Board  
Medical Care Facility  
Isabella County, Michigan

We have audited the accompanying basic financial statements of the Isabella County Medical Care Facility (the "Facility"), a component unit of Isabella County, Michigan, as of and for the years ended September 30, 2003 and 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Medical Care Facility as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The administration's discussion and analysis pages 5 through 8 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2004 on our consideration of Isabella County Medical Care Facility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Family Independence Agency Board  
Isabella County Medical Care Facility  
Isabella County, Michigan

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Isabella County Medical Care Facility's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis, all of which are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Page, Olson & Company*



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2003 AND 2002

This Management Discussion and Analysis (MD&A) of the Isabella County Medical Care Facility (Facility) provides an overview of the financial performance and statements of the Facility for the years ended September 30, 2003 and 2002. The information contained in this MD&A should be considered in conjunction with the Facility's financial statements and the accompanying notes, which immediately follow this section.

**SUMMARY OF NET ASSETS**

A condensed summary of the Facility's total net assets at September 30 is as follows:

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
<b>ASSETS:</b>		
Current and Other Assets	\$ 11,359,593	\$ 3,423,230
Capital Assets - Net of Accumulated Depreciation	<u>2,513,168</u>	<u>1,451,992</u>
Total Assets	13,872,761	4,875,222
<b>LIABILITIES:</b>		
Current Liabilities	865,616	437,485
Long-Term Liabilities	<u>7,978,431</u>	<u>277,102</u>
Total Liabilities	8,844,047	714,587
<b>NET ASSETS:</b>		
Invested in Capital Assets - Net of Related Debt	1,248,032	1,451,992
Restricted - Non Expendable	55,226	55,226
Restricted - Expendable	3,434,653	1,840,958
Unrestricted	<u>290,803</u>	<u>812,459</u>
Total Net Assets	<u>\$ 5,028,714</u>	<u>\$ 4,160,635</u>

The above analysis focuses on the net assets. The change in net assets of the Facility's business-type activities is discussed below. The Facility's net assets were \$5,028,714 and \$4,160,635 for the years ended September 30, 2003 and 2002. Expendable restricted net assets of \$3,434,653 and \$1,840,958 for at September 2003 and 2002 are reported to show legal constraints on the funds. The non-expendable restricted net assets of \$55,226 for both years are reported to show that the funds may not be spent due to the constraints of a trust. Capital assets, net of related debt totaling \$1,248,032 and \$1,451,992 for the years ended September 30, 2003 and 2002 compare the original cost, less depreciation of the Facility's capital assets to the long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt comes due. The remaining amount of net assets of \$290,803 and \$812,459 was unrestricted at September 30, 2003 and 2002.

The unrestricted net assets on the business-type activities represents the accumulated results of all past years' operations. The operating results of the enterprise fund will have a significant impact on the change in unrestricted net assets from year to year.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2003 AND 2002

**SUMMARY OF ACTIVITIES**

A summary of the Statement of Activities, which shows the changes in net assets for the years ended September 2003 and 2002, is as follows:

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
REVENUE		
Program Revenue:		
Charges for Services	\$ 5,090,298	\$ 5,015,915
Operating Grants and Contributions	42,020	173,598
General Revenue:		
Property Taxes	1,051,974	-
Intergovernmental Transfer	97,839	197,704
Other	<u>149,655</u>	<u>113,452</u>
Total Revenue	6,431,786	5,500,669
FUNCTION/PROGRAM EXPENSES		
Primary Service	4,914,979	4,769,541
Therapy	453,721	479,822
Barber & Beautician	9,251	9,345
Adult Day Care	<u>185,756</u>	<u>174,858</u>
Total Expenses	<u>5,563,707</u>	<u>5,433,566</u>
Increase (Decrease) in Net Assets	<u>\$ 868,079</u>	<u>\$ 67,103</u>

The primary reason for the increase in net assets from 2002 to 2003 is the property tax revenue that was received in 2003. The property tax revenue is intended to be used to repay the long-term lease as well as to supplement the on-going operations of the facility.

**SUMMARY OF CASH FLOW ACTIVITIES**

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash on hand, demand deposits, and sort-term investments (including restricted funds) with a maturity of three months or less.

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
Cash Flows From:		
Operating Activities	40,771	(293,437)
Non-Capital Financing Activities	133,839	261,167
Capital and Related Financing Activities	7,801,697	72,636
Investing Activities	<u>113,655</u>	<u>49,989</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,089,962	90,355
Cash and Cash Equivalents October 1,	<u>2,527,034</u>	<u>2,436,679</u>
Cash and Cash Equivalents September 30,	<u>\$ 10,616,996</u>	<u>\$ 2,527,034</u>

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2003 AND 2002

The large increase in cash and cash equivalents for the year ended September 30, 2003 results mainly from the proceeds from the capital debt that entered into to finance the capital project that is currently on-going.

**CAPITAL ASSETS**

At September 30, 2003 and 2002 the Facility had \$5,088,803 and \$3,864,477 invested in a broad range of capital assets, including buildings, equipment and construction in progress. The amounts represent a net increase (including additions and disposals) of \$1,224,326 and \$100,861 from the prior years for the years ended September 30, 2003 and 2002.

	<u>9/30/03</u>	<u>9/30/02</u>
Buildings and Improvements	\$ 2,390,714	\$ 2,390,714
Equipment	1,432,953	1,402,842
Construction in Progress	<u>1,265,136</u>	<u>70,921</u>
 Total Capital Assets	 5,088,803	 3,864,477
 Less Accumulated Depreciation	 <u>(2,575,635)</u>	 <u>(2,412,485)</u>
 Net Capital Assets	 <u>\$ 2,513,168</u>	 <u>\$ 1,451,992</u>

Actual additions were \$1,224,326 and \$100,861 for the years ended September 30, 2003 and 2002 and included improvements, equipment and additional construction in progress. A capital lease/bond was entered into to finance the construction in progress.

We present more detailed information about our capital assets in the notes to the financial statements.

**DEBT**

At September 30, 2003 and 2002, the Facility had \$8,265,931 and \$309,602, respectively, in long-term debt obligations outstanding.

	<u>9/30/03</u>	<u>9/30/02</u>
Capital Lease/Bond	\$ 7,933,834	\$ -
Compensated Absences Payable	<u>332,097</u>	<u>309,602</u>
 Total Long-Term Debt Obligations	 <u>\$ 8,265,931</u>	 <u>\$ 309,602</u>

We present more detailed information about our long-term obligations in the notes to the financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2003 AND 2002

**CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide the Facility's taxpayers, customers, investors and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administrator's office at 1222 North Drive, Mt. Pleasant, Michigan 48858.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2003 AND 2002

Statement I

	<u>Business-type Activities</u>	
	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
<u>Current Assets</u>		
Cash	\$ 266,437	\$ 441,212
Petty Cash	200	200
Accounts Receivable - Patient Accounts Net of Allowance	705,432	725,824
Accounts Receivable - Adult Day Care	20,941	26,239
Property Tax Receivable	1,805	-
Due From Saginaw Chippewa Indian Tribe	-	96,000
Due From Patient Trust Fund	153	109
Prepaid Expenses	<u>14,266</u>	<u>48,024</u>
Total Current Assets	1,009,234	1,337,608
<u>Restricted Assets</u>		
Cash	8,772,450	702,088
Investments	<u>1,577,909</u>	<u>1,383,534</u>
Total Restricted Assets	10,350,359	2,085,622
<u>Non-Current Assets</u>		
Building and Equipment	3,823,667	3,793,556
Construction in Progress	1,265,136	70,921
Less Accumulated Depreciation	<u>(2,575,635)</u>	<u>(2,412,485)</u>
Net Building and Equipment	<u>2,513,168</u>	<u>1,451,992</u>
TOTAL ASSETS	<u>\$ 13,872,761</u>	<u>\$ 4,875,222</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities</u>		
Accounts Payable	\$ 219,717	\$ 106,723
Accounts Payable - Maintenance of Effort	18,200	25,087
Payroll Deductions Payable	74,302	67,071
Salaries Payable	5,965	5,026
Deferred Revenue	259,932	201,078
Vested Benefits Payable, due within one year	32,500	32,500
Capital Lease Payable, due within one year	<u>255,000</u>	<u>-</u>
Total Current Liabilities	865,616	437,485
<u>Non-Current Liabilities</u>		
Long-Term Vested Benefits Payable	299,597	277,102
Capital Lease Payable (Net of Discount)	<u>7,678,834</u>	<u>-</u>
Total Non-Current Liabilities	<u>7,978,431</u>	<u>277,102</u>
TOTAL LIABILITIES	8,844,047	714,587
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	1,248,032	1,451,992
Restricted-Non Expendable	55,226	55,226
Restricted-Expendable	3,434,653	1,840,958
Unrestricted	<u>290,803</u>	<u>812,459</u>
TOTAL NET ASSETS	<u>5,028,714</u>	<u>4,160,635</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,872,761</u>	<u>\$ 4,875,222</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2003 AND 2002

Statement II

	2003				2002			
	Program Revenues			Business-type Activities Net (Expense) Revenue and Changes in Net Assets	Program Revenues			Business-type Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants/ Contributions		Expenses	Charges for Services	Operating Grants/ Contributions	
<b>Functions / Programs</b>								
Primary Government-								
Business-type Activities:								
Primary Services	\$ 4,914,979	\$ 4,016,727	\$ 42,020	\$ (856,232)	\$ 4,769,541	\$ 4,102,945	\$ 173,598	\$ (492,998)
Therapy	453,721	904,986	-	451,265	479,822	797,939	-	318,117
Barber & Beautician	9,251	11,406	-	2,155	9,345	11,368	-	2,023
Adult Day Care	185,756	157,179	-	(28,577)	174,858	103,663	-	(71,195)
<b>Total Governmental Activities</b>	<b>\$ 5,563,707</b>	<b>\$ 5,090,298</b>	<b>\$ 42,020</b>	<b>(431,389)</b>	<b>\$ 5,433,566</b>	<b>\$ 5,015,915</b>	<b>\$ 173,598</b>	<b>(244,053)</b>
<b>General Revenues:</b>								
Property Taxes, Levied for Debt Services				1,051,974				-
Interest and Investment Earnings				113,655				49,989
Rents				36,000				36,000
Workers' Compensation Dividend				-				27,463
Intergovernmental Transfer				97,839				197,704
<b>Total General Revenues</b>				<b>1,299,468</b>				<b>311,156</b>
<b>Change in Net Assets</b>				<b>868,079</b>				<b>67,103</b>
<b>Net Assets - Beginning of the Year</b>				<b>4,160,635</b>				<b>4,093,532</b>
<b>Net Assets - End of the Year</b>				<b>\$ 5,028,714</b>				<b>\$ 4,160,635</b>

The accompanying notes are an integral part of these financial statements.



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	Statement III	
	<u>2003</u>	<u>2002</u>
Operating Revenue	\$ 5,090,298	\$ 5,015,915
Operating Expenses	<u>5,483,635</u>	<u>5,352,399</u>
Operating Income (Loss) Before Building Depreciation	(393,337)	(336,484)
Less Depreciation - Building	<u>(80,072)</u>	<u>(81,167)</u>
Operating Income (Loss)	(473,409)	(417,651)
Non-Operating Revenue (Expenses)	1,299,468	311,156
Other Financing Sources	<u>42,020</u>	<u>173,598</u>
Net Income (Loss)	868,079	67,103
Retained Earnings - October 1	<u>4,160,635</u>	<u>4,093,532</u>
Retained Earnings - September 30	<u><u>\$ 5,028,714</u></u>	<u><u>\$ 4,160,635</u></u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF CASH FLOWS - ENTERPRISE FUND  
YEARS ENDED SEPTEMBER 30, 2003 AND 2002

Statement IV

	<u>2003</u>	<u>2002</u>
<b><u>Cash Flows from Operating Activities</u></b>		
Receipts from Customers and Others	\$ 5,304,556	\$ 5,054,589
Payments to Suppliers	(1,394,833)	(1,557,367)
Payments to Employees	<u>(3,868,952)</u>	<u>(3,790,659)</u>
Net Cash Provided (Used) by Operating Activities	40,771	(293,437)
<b><u>Cash Flows from Non-Capital Financing Activities</u></b>		
Rental Receipts	36,000	36,000
Workers' Comp Dividend	-	27,463
Intergovernmental Transfers	<u>97,839</u>	<u>197,704</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	133,839	261,167
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>		
Property Tax Collections	1,050,169	-
Proceeds from Capital Debt	7,930,352	-
Capital Contributions	42,020	173,598
Acquisition and Construction of Capital Assets	(1,087,548)	-
Interest Paid on Capital Debt	<u>(133,296)</u>	<u>(100,962)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	7,801,697	72,636
<b><u>Cash Flows from Investing Activities</u></b>		
Interest Received	<u>113,655</u>	<u>49,989</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,089,962	90,355
Cash and Cash Equivalents at October 1,	<u>2,527,034</u>	<u>2,436,679</u>
Cash and Cash Equivalents , September 1,	<u>\$ 10,616,996</u>	<u>\$ 2,527,034</u>
<b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b>		
Operating Income	\$ (473,409)	(417,651)
Depreciation	163,150	158,657
Changes in Assets and Liabilities		
(Increase) Decrease in Accounts Receivable - Patient Accounts	20,392	104,854
(Increase) Decrease in Accounts Receivable - Adult Day Care	5,298	(13,738)
(Increase) Decrease in Prepaid Expenses	33,758	(14,500)
(Increase) Decrease in Due from Saginaw Chippewa Indian Tribe	96,000	(96,000)
(Increase) Decrease in Due from Patient Trust	(44)	(1)
Increase (Decrease) in Accounts Payable	112,994	(81,406)
Increase (Decrease) in Accounts Payable - MOE	(6,887)	(2,467)
Increase (Decrease) in Salaries Payable	939	879
Increase (Decrease) in Payroll Deductions Payable	7,231	12,863
Increase (Decrease) in Vested Benefits Payable	22,495	(2,986)
Increase (Decrease) in Deferred Revenue	<u>58,854</u>	<u>58,059</u>
Net Cash Provided (Used) by Operations	<u>\$ 40,771</u>	<u>\$ (293,437)</u>
<b><u>Reconciliation of Cash and Cash Equivalents per Statement of Net Assets:</u></b>		
Cash-Current	\$ 266,437	\$ 441,212
Petty Cash	200	200
Restricted Cash	8,772,450	702,088
Restricted Investments	<u>1,577,909</u>	<u>1,383,534</u>
Total Cash and Cash Equivalents	<u>\$ 10,616,996</u>	<u>\$ 2,527,034</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2003

Statement V

	<u>2003</u>	<u>2002</u>
<u>ASSETS</u>		
Cash	\$ 739	\$ 577
<u>LIABILITIES</u>		
Due to General Fund	\$ 153	\$ 109
Due to Patients	<u>586</u>	<u>468</u>
Total Liabilities	<u>\$ 739</u>	<u>\$ 577</u>

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2003 and 2002

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Isabella County Medical Care Facility is organized pursuant to the Michigan Social Welfare Act, Act 280 of 1939. Section 58 of this Act authorizes the County Family Independence Agency Board, with the approval of the Board of Commissioners, to operate a county medical care facility.

The fund and agency accounts related to the operation of the Facility are appropriately included as a component unit of Isabella County, Michigan, and are an integral part of the County's reporting entity in accordance with the requirements of Statement 14 of the Governmental Accounting Standard Board (GASB), *The Financial Reporting Entity*. The basic financial statements of the Facility are incorporated in the County's Comprehensive Financial Report as an enterprise fund activity. Complete financial statements of Isabella County, Michigan, the primary government of the facility, can be obtained directly from the County's administrative office at 200 North Main Street, Mt. Pleasant, Michigan 48858.

B. SCOPE OF SERVICES

Through the provisions of the Michigan Social Welfare Act, Act 280 of 1939, Section 58, authorization is given to the County Family Independence Agency Board, with the approval of the Board of Commissioners, "to supervise and be responsible for the operation of a county medical care facility...such facility shall provide a program of planned and continuing medical treatment and nursing care under the general direction and supervision of a licensed physician employed full or part-time...". The Isabella County Medical Care Facility is licensed through the Michigan Department of Public Health as an 80 bed skilled nursing facility (SNF).

In addition to the services provided as a licensed skilled care facility, the Medical Care Facility provides medical services on an outpatient basis to the residents of the local and surrounding communities. The Facility's Physical Therapy and Occupational Therapy Departments are classified as certified Medicare/ Medicaid providers and are the sole providers in Isabella County of these services to Medicare and Medicaid patients.

Additionally, the Facility accepts many inpatients upon discharge from the adjacent and attached Hospital. As a result, the Facility provides a higher intensity of services due to the acute medical needs of such patients.

Mid-year of 1999, the Facility expanded their services to include an Adult Day Care. The Adult Day Care offers families in the community an opportunity for daytime respite in the care of those individuals with Alzheimer's or similar conditions requiring 24-hour supervision.

Management believes the scope of services provided by the Facility are unusual when compared to other skilled care nursing facilities. The range and volume of specialized services to the community's public and private entities are beyond the standard operations of a conventional Medical Care Facility. The specialized services offered by the Facility are an eminent benefit to the community.

MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental-activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Facility's government-wide activities are considered to be business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Normally, separate financial statements would be provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds would be reported as separate columns in the fund financial statements. The Facility is made up of only one fund. This fund is an enterprise fund - proprietary fund type, and as such, all fund statements presented represent the Facility as a whole.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Isabella County Medical Care Facility are charges to patients for services. Patient service revenue is recorded at established gross rates and is reduced by third party contractual allowances. The third party contractual allowances reflect the difference between gross charges and cost for patients reimbursed on a cost basis (Medicare/Medicaid/CMCH-PT).

Reimbursement principles for the Medicare/Medicaid programs are subject to judgmental interpretation and to audits which could result in subsequent adjustments to revenue. Management of the Isabella County Medical Care Facility believes that it has properly applied reimbursement principles in the determination of revenue from the programs. Any differences between estimated provisions and final settlements with these programs are reported as non-operating revenue or expenses in the year final settlement occurs.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Facility.

The Facility reports the following major proprietary fund:

A single enterprise fund accounts for the activities of the Facility.

Additionally, the Facility has fiduciary responsibility for the following agency fund:

The Patient Fund is an agency fund in which patients deposit funds for personal and ancillary expenses.

E. THIRD PARTY REIMBURSEMENT

A substantial portion of the Isabella County Medical Care Facility's revenue is derived from services to patients under Medicare and Medicaid insurance programs whose payment principles were both based upon paying the lower of program costs, subject to limitations, or program charges, or a predetermined reimbursement amount per case. The program costs and the predetermined reimbursement amounts are determined by contractual agreement and by regulations promulgated under the Social Security Act and by the Michigan Family Independence Agency. Medicare has established a listing of reimbursement amounts per type of patient cared for based on the evaluated level of care needed. Provision is made in the financial statements to reflect the amounts earned and due from third party payers based upon these principles.

As a result of participation in these programs, the financial condition of the Medical Care Facility is dependent upon the third parties' ability to reimburse the Facility.



MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CASH AND INVESTMENTS

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less when acquired. Investments are stated at fair value.

G. RECEIVABLES AND PAYABLES

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

The allowance for uncollectible amounts for the trade receivables is based on a weighted average of outpatient receivables with a percentage allocated for prior and current years along with a flat amount determined by management for inpatient receivables.

H. INVENTORIES AND PREPAID ITEMS

Inventories of consumable medical supplies have not been recorded as assets in the financial statements. The costs of such inventory items are recorded as expenditures at the time the items are purchased. The quantities of these inventories are considered to be stable in nature from year to year and not prone to materially varying fluctuations nor are they material in total.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. RESTRICTED ASSETS

Asset for Vested Benefits is recorded as a separate investment account set aside to fund employee vested sick and vacation benefits and the net assets are restricted in the amount of \$354,890. The Funded Depreciation Restricted Asset is recorded as a separate investment account for the assets earmarked for future capital outlay expenses and the net assets are restricted in the amount of \$1,577,909. The Restricted Assets for Capital Projects is recorded in the project accounts in the amount of \$7,965,292. This is reduced by the amount of debt not currently attributed to the construction in progress in the amount of \$6,668,698 to arrive at the restricted net asset in the amount of \$1,296,594.

MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. RESTRICTED ASSETS (Continued)

The Drayton and Minnie Miley Trust was established by Inez Vetter in August 1973, with a deposit to the Trust of assets in the approximate amount of \$61,362. The Trustees of the Drayton and Minnie Miley Trust are the Medical Care Facility's Administrator, Medical Director, and Director of Nursing. The Trustees may authorize the Trust monies to be used for the purchase of equipment to be used in conjunction with patient care. The terms of the Trust authorize the Trustees to expend any and all income as may be accumulated through the date of equipment purchase but the corpus of the Trust may not be invated in an amount in excess of 5% of the presently existing corpus with any single purchase, or in an amount in excess of 10% of said corpus for all purchases so made during any one calendar year. As of September 30, 2003 the Trust assets consist of \$61,362 of corpus amount and \$35,013 of unexpended accumulated income. The entire amount of \$96,375 is recorded as restricted net assets of which \$41,149 is expendable and \$55,226 is non-expendable.

The Isabella County Medical Care Facility Building, Equipment and Patient Care Trust was established by the Isabella County Social Services Board in 1974 to receive donations made by various individuals and organizations to the Isabella County Medical Care Facility. All donations are deposited to the Trust and the assets are used for equipment purchases. As of September 30, 2003 the Trust assets consist of \$164,111 and the entire amount is recorded as expendable restricted net assets.

A reconciliation of restricted net assets is as follows:

	<u>2003</u>	<u>2002</u>
Restricted for:		
Vested Employee Sick and Vacation Leave	\$ 354,890	\$ 267,209
Funding of Depreciation	1,577,909	1,383,534
Capital Projects	1,296,594	-
Drayton and Minnie Miley Trust	96,375	96,871
Patient Equipment Trust	<u>164,111</u>	<u>148,570</u>
Total Restricted Net Assets	<u>\$ 3,489,879</u>	<u>\$ 1,896,184</u>
	<u>2003</u>	<u>2002</u>
Restricted Net Assets per Statement I:		
Expendable	\$ 3,434,653	\$ 1,840,958
Non-Expendable	<u>55,226</u>	<u>55,226</u>
Total Restricted Net Assets	<u>\$ 3,489,879</u>	<u>\$ 1,896,184</u>

MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Capital assets, which include buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the facility as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The facility does not have infrastructure type assets.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Estimated Useful Life in Years</u>
Building and Improvements	5-50
Equipment	5-20

K. COMPENSATED ABSENCES

Using the criteria established in Governmental Accounting Standards Board (GASB) Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place. Criteria for recognition of these two basic types of compensated absences are as follows:

- 1) Vacation and Similar Leave Absences - should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
  - a) The employees' rights to receive compensation are attributable to services already rendered.
  - b) It is probable that the employer will compensate the employees for such benefits through paid time off or some other means, such as cash payments at termination or retirement.

MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. COMPENSATED ABSENCES (Continued)

- 2) Sick and Similar Leave Absences - should be accrued using one of the following termination approaches:
  - a) Under the Termination Payment Method, a liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement.
  - b) Under the Vesting Method, a liability should be based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments.

The Medical Care Facility employee agreements state that accumulated employee sick leave benefits will be paid upon death, retirement, or severance of employment in accordance with certain stated percentages based on length of employment and that accumulated employee vacation pay will also be paid. Accordingly, unused employee sick leave benefits accrued using the Vesting Method and accumulated vacation benefits meet the definition of "compensated absences" and represent a future obligation of the Medical Care Facility as of September 30, 2003.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Capital lease/bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Capital lease/bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

M. COMPARATIVE DATA/RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MEDICAL CARE FACILITY  
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Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. ACCOUNTING CHANGES

Effective October 1, 2002, the facility implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Changes to the Facility's financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis section providing analysis of the Facility's overall financial position and results of operations has been included.

The Statement of Cash Flows has been prepared using the gross method.

The Drayton and Minnie Miley Trust and the Isabella County Medical Care Facility Building, Equipment and Patient Care Trust Funds were blended with the Enterprise Fund of the facility as the assets may be used to support the programs of the Facility.

The Fund Equity previously reported on the Facility's Fund Balance Sheet was adjusted at September 30 to arrive at the net assets reported in the Statement of Net Assets as follows:

	<u>2002</u>	<u>2001</u>
Net Assets-September 30,	\$ 3,889,046	\$ 3,815,453
Adjustments:		
Fixed Assets Consistent with Updated Policy	26,048	26,048
Restricted Funds brought into Facility Funds	<u>245,441</u>	<u>252,031</u>
	<u>\$ 4,160,535</u>	<u>\$ 4,093,532</u>

Except as noted above, the adoption of GASB 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the Statement and reflection of capital contributions as changes in net assets.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A budget was adopted by the Family Independence Agency Board for the Isabella County Medical Care Facility. The budget for an Enterprise Fund is an Informational Summary. An Informational Summary is not required to be presented in the financial statements for an Enterprise Fund, thus no comparison to the budget has been presented.

MEDICAL CARE FACILITY  
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Statement VI

NOTE 3 - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Facility's Administrator. Michigan Compiled Laws, Section 129.91, authorizes the Facility to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of the United States banks; obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligation described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Facility's deposits are in accordance with statutory authority.

Generally accepted accounting principles require that Facility investments be classified into categories to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Facility or its agent in the Facility's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Facility's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Facility's name.

An exception to the classification requirement is investments in an investment pool that are not evidenced by securities that exist in physical or book entry form. At September 30, 2003 and 2002, the Facility's investment held by Isabella County of \$1,577,909 and \$1,383,534, respectively is of this type and complies with legal authority as stated above.



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
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Statement VI

NOTE 3 - CASH AND INVESTMENTS (Continued)

At year end, the carrying amount of the Medical Care Facility's cash and investments was comprised of the following:

	2003		
	Business- Type Activities	Fiduciary Funds	Total Primary Government
Cash on Hand	\$ 200	\$ 586	\$ 786
Deposits with Financial Institutions	274,307	153	274,460
Deposits with County Treasurer	8,764,580	-	8,764,580
Investments Held by County Treasurer	<u>1,577,909</u>	<u>-</u>	<u>1,577,909</u>
Total Cash and Investments	<u>\$ 10,616,996</u>	<u>\$ 739</u>	<u>\$ 10,617,735</u>

	2002		
	Business- Type Activities	Fiduciary Funds	Total Primary Government
Cash on Hand	\$ 200	\$ 468	\$ 668
Deposits with Financial Institutions	258,511	109	258,620
Deposits with County Treasurer	884,790	-	884,790
Investments Held by County Treasurer	<u>1,383,534</u>	<u>-</u>	<u>1,383,534</u>
Total Cash and Investments	<u>\$ 2,527,035</u>	<u>\$ 577</u>	<u>\$ 2,527,612</u>

Federal Deposit Insurance Corporation (FDIC) coverage of Facility deposits were as follows:

	2003		
	Insured	Uninsured	Total
Carrying Amount	\$ 112,689	\$ 10,505,046	\$ 10,617,735
Bank Balances	\$ 197,697	\$ 10,497,361	\$ 10,695,058

	2002		
	Insured	Uninsured	Total
Carrying Amount	\$ 200,000	\$ 2,327,612	\$ 2,527,612
Bank Balances	\$ 200,000	\$ 2,415,873	\$ 2,615,873

County Deposits

The actual bank balance of Cash and Investments held in the County Treasurer's name for the facility is insured only to the extent that some or all of the County's available insurance coverages could be allocated to these specific accounts. The carrying value, as indicated above, for these cash and investments held in the County Treasurer's name was \$10,342,489 and \$2,268,324 at September 30, 2003 and 2002 respectively. The amount of FDIC coverage applicable to the Facility of the actual bank balance is unknown.

MEDICAL CARE FACILITY  
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NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable - Patient Accounts consist of the following:

	<u>2003</u>	<u>2002</u>
Medicare	\$ 245,033	\$ 292,339
Medicaid	153,857	230,664
Private/Other	<u>332,542</u>	<u>272,821</u>
	731,432	795,824
Less Estimated Uncollectibles	<u>(26,000)</u>	<u>(70,000)</u>
Net Patient Accounts Receivable	<u>\$ 705,432</u>	<u>\$ 725,824</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Facility's business-type activities was as follows:

	<u>2003</u>			
	Beginning Balance 10/01/02	Additions	Deletions	Ending Balance 9/31/03
Building and Improvements	\$ 2,390,714	\$ -	\$ -	\$ 2,390,714
Equipment			-	
Administration	469,497	19,057	-	488,554
Maintenance	18,706	-	-	18,706
Laundry	4,726	-	-	4,726
Housekeeping	198	-	-	198
Nursing	541,554	11,054	-	552,608
Physical Therapy	273,252	-	-	273,252
Activities	19,591	-	-	19,591
Occupational Therapy	12,291	-	-	12,291
Adult Day Care	17,590	-	-	17,590
Beauty Shop	695	-	-	695
Other	44,742	-	-	44,742
Construction in Progress	<u>70,921</u>	<u>1,194,215</u>	<u>-</u>	<u>1,265,136</u>
Total Cost	3,864,477	1,224,326	-	5,088,803
Total Accumulated Depreciation	<u>(2,412,485)</u>	<u>(163,150)</u>	<u>-</u>	<u>(2,575,635)</u>
Net Fixed Assets	<u>\$ 1,451,992</u>	<u>\$ 1,061,176</u>	<u>\$ -</u>	<u>\$ 2,513,168</u>

MEDICAL CARE FACILITY  
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NOTE 5 - CAPITAL ASSETS (Continued)

	<u>2002</u>			
	Beginning Balance 10/01/01	Additions	Deletions	Ending Balance 9/31/02
Building and Improvements	\$ 2,369,241	\$ 21,473	\$ -	\$ 2,390,714
Equipment			-	
Administration	457,430	12,067	-	469,497
Maintenance	18,706	-	-	18,706
Laundry	4,726	-	-	4,726
Housekeeping	198	-	-	198
Nursing	512,414	29,140	-	541,554
Physical Therapy	273,252	-	-	273,252
Activities	19,591	-	-	19,591
Occupational Therapy	12,291	-	-	12,291
Adult Day Care	17,590	-	-	17,590
Beauty Shop	695	-	-	695
Other	44,742	-	-	44,742
Construction in Progress	<u>32,740</u>	<u>38,181</u>	<u>-</u>	<u>70,921</u>
 Total Cost	 3,763,616	 100,861	 -	 3,864,477
 Total Accumulated Depreciation	 <u>(2,253,828)</u>	 <u>(158,657)</u>	 <u>-</u>	 <u>(2,412,485)</u>
 Net Capital Assets	 <u>\$ 1,509,788</u>	 <u>\$ (57,796)</u>	 <u>\$ -</u>	 <u>\$ 1,451,992</u>

Depreciation expense was charged to activities of the Facility and reported on the government-wide statements as follows:

	<u>2003</u>	<u>2002</u>
Business-type Activities:		
Primary Services	\$ 152,377	\$ 146,583
Therapy	8,751	9,589
Barber & Beautician	139	139
Adult Day Care	<u>1,883</u>	<u>2,346</u>
 Total Business-type Activities	 <u>\$ 163,150</u>	 <u>\$ 158,657</u>

A donation of land was received at the inception of the Facility. The value of the land is not recorded since an amount cannot be reasonably determined.

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NOTE 6 - DEFERRED REVENUE

Below is a breakdown of the Deferred Revenue Balance:

	<u>2003</u>	<u>2002</u>
Patient Pay Prebills	\$ 37,751	\$ 32,279
Private Pay Prebills	64,480	54,560
Transfers from Saginaw Chippewa Indian Tribe for which Corresponding Expenditures have not been made	<u>157,701</u>	<u>114,239</u>
	<u>\$ 259,932</u>	<u>\$ 201,078</u>

The entire deferred revenue balance is available but not yet earned.

NOTE 7 - LONG-TERM OBLIGATIONS

The Facility entered into a long-term capital lease/bond for the construction project with the Isabella County Building Authority. The Facility's other long-term obligations included compensated absences.

The long-term obligation activity can be summarized as follows:

	<u>2003</u>				
	<u>Balance</u>		<u>Payments/</u>	<u>Balance</u>	<u>Amount Due</u>
	<u>10/1/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/03</u>	<u>Within One</u>
					<u>Year</u>
Capital Lease/Bond	\$ -	\$ 8,000,000	\$ -	\$ 8,000,000	\$ 255,000
Less deferred amounts:					
For Issuance Discounts	<u>-</u>	<u>(69,648)</u>	<u>(3,482)</u>	<u>(66,166)</u>	
Total Capital Lease	-	7,930,352	(3,482)	7,933,834	
Compensated Absences	<u>309,602</u>	<u>22,495</u>	<u>-</u>	<u>332,097</u>	32,500
Total Business-type Activity Long-Term Liabilities	<u>\$ 309,602</u>	<u>\$ 7,952,847</u>	<u>\$ (3,482)</u>	<u>\$ 8,265,931</u>	

MEDICAL CARE FACILITY  
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NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

	2002				
	Balance 10/1/01	Additions	Payments/ Reductions	Balance 9/30/02	Amount Due Within One Year
Compensated Absences	<u>312,588</u>	<u>-</u>	<u>2,986</u>	<u>309,602</u>	32,500
Total Business-type Activity Long-Term Liabilities	<u>\$ 312,588</u>	<u>\$ -</u>	<u>\$ 2,986</u>	<u>\$ 309,602</u>	

Annual debt service requirements to maturity for each of these debts is as follows:

Capital Lease

Issued: December 15, 2002

Original Amount: \$8,000,000

Interest: 3.00 - 4.60% (due May 1 and November 1)

Principal Due: May 1,

<u>Fiscal Year Ended</u>	<u>Interest</u>	<u>Principal</u>
2004	\$ 319,910	\$ 255,000
2005	312,260	270,000
2006	304,160	285,000
2007	295,610	300,000
2008	286,610	315,000
2009-2013	1,251,994	1,845,000
2014-2018	847,981	2,370,000
2019-2022	<u>276,605</u>	<u>2,360,000</u>
Total Capital Lease	<u>\$ 3,895,130</u>	<u>\$ 8,000,000</u>

Compensated Absences

Amount estimated at September 30, 2003

\$ 332,097

NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES

As explained in the Summary of Significant Accounting Policies, the third party reimbursement process results in amounts due to/receivable from the third parties as a result of the cost settlement procedures.

MEDICARE COST REPORTS

Medicare payment methods changed effective January 1, 1999 for the Facility wherein fixed rates per diagnosis for all services to Medicare patients now apply. The new payment method results in fixed amounts which are not subject to adjustment based on actual costs. An estimate of a receivable or payable based on cost reports is thus no longer applicable. This may be subject to change as a result of further medical record audits.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2003 and 2002

Statement VI

NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES (Continued)

MEDICAID COST REPORTS

The estimated contractual allowance based on cost report filing results in no receivable or payable. Actual costs approximated expected reimbursement. This may be subject to adjustments as a result of future intermediary field audit procedures.

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID

In 1980, the State enacted Public Act 391 which requires counties to pay "Maintenance of Effort" payments to the State. According to the Act's statutory formula, a Maintenance of Effort rate per patient day is established for patients at each medical care facility for each year. This rate is then multiplied by the number of days of nursing home services received by each Medicaid patient in the facility.

Based on their income levels, many Medicaid patients are required to pay a certain amount of each month's care in order to make themselves eligible for the Medicaid program. This results in the patients paying a portion of the month's care from their own resources, with the balance of the month's care then paid through the Medicaid program.

The portion of care paid for through the patient's own funds has been labeled by the State as "Institutional Code" costs. The State Family Independence Agency has determined that, notwithstanding the fact that the patients themselves pay these "Institutional Code" payments rather than the State, days for which care is provided through these funds are to be included in calculating the Maintenance of Effort obligations and counties must pay to the State. The result is that counties reimburse the State for a portion of the funds that the State pays for Medicaid patients at medical care facilities and also for a portion of the funds that are not paid by the State but rather are paid by the patients themselves.

The total Maintenance of Effort (MOE) expenses recognized by Isabella County Medical Care Facility is as follows:

	<u>2003</u>	<u>2002</u>
MOE Paid in Cash During Year	\$ 112,200	\$ 166,181
Less MOE paid in Current Year for days recorded as Accounts Payable in Prior Year	(25,087)	(27,554)
Plus MOE incurred for days recorded as Accounts Payable as of September 30	<u>18,200</u>	<u>25,087</u>
Total MOE Expense Recognized	<u>\$ 105,313</u>	<u>\$ 163,714</u>

The effective MOE rate per day for 2003 and 2002 was \$6.51 and \$9.23, respectively, per patient day.



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2003 and 2002

Statement VI

NOTE 10 - SHARED SERVICES FROM CENTRAL MICHIGAN COMMUNITY HOSPITAL

The Medical Care Facility is located adjacent to the unrelated Central Michigan Community Hospital (CMCH). The Facility shares various services with CMCH. The Facility receives dietary service, steam and electricity, and miscellaneous other services from CMCH. The Facility provides a limited amount of physical therapy services to CMCH patients since CMCH has opened their own physical therapy department.

Pursuant to an agreement approved in 1994, the Facility is billed for various services received from CMCH at cost (based on the CMCH Medicare Cost Report with certain modifications). Correspondingly, the Facility is reimbursed by CMCH, at cost, for physical therapy services provided by the Facility (based on the Facility's Medicare Cost Report) but limited to allowed Medicare Physical Therapy maximums. The current agreement is the result of renegotiations during 1993 and 1994 of a similar agreement that had been in place for many years.

Amounts based on the agreement are billed by each party to the other on a monthly basis with an annual reconciliation and adjustment annually. Amounts receivable or payable as a result of the annual settlement/reconciliation have been received or paid through September 30, 2003.

NOTE 11 - MICHIGAN MUNICIPAL EMPLOYEE RETIREMENT SYSTEM

The Isabella County Medical Care Facility participates with Isabella County in the Michigan Municipal Employees Retirement System. The retirement expenditure for 2003 and 2002 totaled \$205,481 and \$195,323 respectively. Payroll amounts and related disclosures are made in Isabella County's financial statements since individual units data is not available.

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS

Isabella County has established an employee health benefits Self-Insurance Plan in which the Medical Care Facility participates as an employer group.

The Plan is administered under contractual agreement by Blue Cross and Blue Shield of Michigan (BCBSM). The agreement includes a provision for co-insurance whereby the County is responsible for claims incurred up to an agreed-upon ceiling but is insured against further loss by BCBSM. In order to provide for the co-insurance, the County pays a "stop-loss" premium. During 2003 and 2002, the participating employer groups were insured against losses greater than \$50,000 per occurrence, respectively. There is no coverage for aggregate losses under this arrangement. The co-insurance arrangements will be re-negotiated annually with BCBSM.

Isabella County is responsible for collecting the premiums from the participating employer groups and for paying claim settlements, an administrative fee, and the "stop-loss" co-insurance premiums.

In 2003 and 2002, the Medical Care Facility paid premiums to Isabella County for employee health benefit coverage. The expense for employee health benefits incurred in 2003 and 2002 by the Medical Care Facility was \$473,660 and \$484,795.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2003 and 2002

Statement VI

NOTE 13 - INTERGOVERNMENTAL TRANSFER AGREEMENT

The State of Michigan has created a reimbursement policy for county-owned Class III nursing facilities that include a "Proportionate Share Pool" as part of Michigan's Medicaid program's payment for long-term nursing care services. Transfers are made in proportion to the reported Medicaid days in the cost reporting period ending between January 1 and December 31 based on the proportionate share pool for Class III nursing facilities. The Facility received \$97,839 and \$196,031 in transfers during the years ended September 30, 2003 and 2002. The gains from these transfers is recorded in Non-Operating Revenue.

NOTE 14 - CONTINGENCIES

Grants

Isabella County Medical Care Facility receives financial assistance from local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and can be subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the Enterprise Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Isabella County Medical Care Facility at September 30, 2003 and 2002.

OTHER SUPPLEMENTAL INFORMATION



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING REVENUE</u>		
<u>Inpatient Routine Services</u>		
Medicare	\$ 1,025,921	\$ 867,200
Medicaid	2,624,170	2,836,800
Blue Cross	44,000	42,352
Private Pay	<u>659,260</u>	<u>585,180</u>
 Total Inpatient Routine Services	 4,353,351	 4,331,532
<u>Other Inpatient</u>		
Drugs	239,506	198,579
Supplies	123,415	91,902
Oxygen	18,682	37,756
Physical Therapy	550,736	360,787
Occupational Therapy	149,860	136,909
Speech Therapy	24,226	12,612
Medicare Ancillary Services		
Lab	41,838	36,794
X-Ray	24,939	14,616
Nuclear	4,040	-
EKG	4,041	3,279
EEG	<u>-</u>	<u>-</u>
 Total Other Inpatient Services	 <u>1,181,283</u>	 <u>893,234</u>
 Total Inpatient Services	 5,534,634	 5,224,766
<u>Outpatient Services</u>		
Physical Therapy	104,803	208,344
Occupational Therapy	5,715	14,785
Speech Therapy	-	-
Adult Day Care	<u>157,179</u>	<u>103,663</u>
 Total Outpatient Services	 <u>267,697</u>	 <u>326,792</u>
 Total Patient Services Revenue	 5,802,331	 5,551,558
Contractual Allowances - Medicare/Medicaid	(813,336)	(632,749)
Contractual Allowances - CMCH	<u>14,597</u>	<u>9,721</u>
 Net Patient Service Revenue	 5,003,592	 4,928,530

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING REVENUE (CONTINUED)</u>		
<u>Charges for Services and Other</u>		
Barber and Beautician Services	\$ 11,406	\$ 11,368
Sales	1,703	3,074
Contractual Service - Physical Therapy	<u>69,646</u>	<u>64,502</u>
 Total Charges for Services and Other	 82,755	 78,944
 Prior Year Revenue Adjustments	 <u>3,951</u>	 <u>8,441</u>
 TOTAL OPERATING REVENUE	 5,090,298	 5,015,915
<u>OPERATING EXPENSES</u>		
<u>Administrative and General</u>		
Salaries	275,364	258,291
Retirement	18,869	5,590
Social Security	19,965	20,699
Hospitalization Insurance	79,332	77,567
Workers' Compensation Insurance	680	627
Life and Disability Insurance	1,603	2,276
Office Supplies	12,066	11,433
Printing and Binding	484	484
Postage	2,799	3,428
Memberships and Subscriptions	3,174	3,617
Bank Fees	14	-
<u>Contractual Services</u>		
Legal	2,529	35,319
Audit and Other	21,670	19,145
Other	12,899	10,894
Consultants	12,984	8,082
Communications - Telephone	10,908	11,843
Cable TV	4,201	340
Travel	6,661	2,565
Advertising	108	3,755
Public Relations	568	1,048
Insurance and Bonds	46,231	40,800
Office Equipment Repairs and Maintenance	308	659
Employee Training and Improvement	250	600
Depreciation Expense	25,467	23,398
Miscellaneous	<u>278</u>	<u>2</u>
 Total Administrative and General	 559,412	 542,462

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Plant Operation and Maintenance		
Salaries	\$ 111,606	\$ 106,821
Retirement	10,110	7,923
Social Security	8,404	8,125
Hospitalization Insurance	20,901	29,088
Workers' Compensation Insurance	3,268	3,580
Life and Disability Insurance	321	325
Maintenance Supplies	7,068	10,390
Gas, Oil, and Grease	42	213
Printing and Binding	58	56
Grounds Care and Maintenance	2,386	2,965
Elevator Maintenance	18,040	17,015
Contracted Services	2,729	-
Utilities	59,293	54,709
Building Repairs and Maintenance	2,351	5,193
Equipment Repairs and Maintenance	5,937	18,047
Depreciation Expense	758	758
Miscellaneous	286	-
	<hr/>	<hr/>
Total Plant Operation and Maintenance	253,558	265,208
Laundry		
Clothing and Bedding	5,104	3,987
Laundry Supplies	3,630	1,715
Towels	-	624
Contractual Services	71,089	84,016
Depreciation Expense	172	363
Equipment and Repairs Maintenance	913	422
	<hr/>	<hr/>
Total Laundry	80,908	91,127
Housekeeping		
Salaries	111,331	100,576
Retirement	8,088	7,506
Social Security	8,490	7,670
Hospitalization Insurance	36,939	24,240
Workers' Compensation Insurance	3,268	3,580
Health Services	190	158
Life and Disability Insurance	107	108
Janitorial Supplies	14,382	14,013
Advertising	193	-
Depreciation Expense	-	30
	<hr/>	<hr/>
Total Housekeeping	182,988	157,881

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING EXPENSES (CONTINUED)</u>		
Dietary		
Food	\$ 37,619	\$ 33,628
Kitchen Supplies	919	60
Contractual Services	392,382	384,503
Contractual Services- Dietician Services	<u>30,772</u>	<u>34,378</u>
Total Dietary	461,692	452,569
Pharmacy		
Prescription and OTC Drugs	179,691	147,112
Stock Drugs	<u>38,049</u>	<u>34,831</u>
Total Pharmacy	217,740	181,943
Nursing Services		
Salaries	1,854,161	1,744,698
Retirement	128,266	123,430
Social Security	140,249	131,844
Hospitalization Insurance	259,002	261,789
Workers' Compensation Insurance	57,878	67,037
Health Services	2,866	3,437
Life and Disability Insurance	4,596	4,769
Medical Supplies	36,929	31,242
Other Supplies	58,802	58,194
Diapers and Pads	30,666	26,483
Printing and Binding	2,753	2,314
Memberships and Subscriptions	582	386
Contractual Services		
Medical Waste Disposal	2,195	1,430
Lab/X-Ray	65,118	50,106
Medical Records	2,595	2,653
Medical Director	18,000	18,000
Travel	1,990	526
Advertising	2,900	2,450
Public Relations	40	4,327
Equipment Repairs and Maintenance	12,943	9,680
Employee Training and Improvement	5,731	4,591
Patient Transportation	160	920
Depreciation Expense	43,651	38,294
Miscellaneous	<u>405</u>	<u>425</u>
Total Nursing Services	2,732,478	2,589,025



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING EXPENSES</u> (CONTINUED)		
Physical Therapy		
Salaries	\$ 243,680	\$ 270,838
Retirement	20,220	30,024
Social Security	17,787	20,257
Hospitalization Insurance	26,547	29,088
Workers' Compensation Insurance	5,783	6,265
Health Services	-	498
Life and Disability Insurance	2,459	1,626
Supplies	1,315	5,765
Printing and Binding	340	685
Memberships and Subscriptions	470	-
Contractual Services		
Outside Services	312	1,058
Travel	3,244	1,620
Advertising	-	832
Equipment Repairs and Maintenance	720	1,440
Employee Training and Improvement	595	-
Bad Debt Expense	42,969	-
Depreciation Expense	7,844	8,650
Miscellaneous	119	-
	<hr/>	<hr/>
Total Physical Therapy	374,404	378,646
Activity Department		
Salaries	65,864	66,213
Retirement	5,055	4,170
Social Security	4,922	5,027
Hospitalization Insurance	18,979	14,544
Workers' Compensation Insurance	743	1,790
Life and Disability Insurance	214	217
Supplies	2,409	2,582
Memberships and Subscriptions	550	470
Printing and Binding	58	125
Employee Training and Improvement	-	880
Depreciation Expense	1,839	1,654
Travel	619	340
Eden Committee	2,253	76
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Total Activity Department	103,505	98,088

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING EXPENSES</u> (CONTINUED)		
Occupational Therapy		
Salaries	\$ 46,491	\$ 62,783
Retirement	4,044	8,340
Social Security	3,320	4,524
Hospitalization Insurance	6,157	9,696
Workers' Compensation Insurance	2,698	4,475
Life and Disability Insurance	321	650
Supplies	2,207	2,974
Printing and Binding	135	130
Contractual Services	2,940	-
Travel	187	-
Bad Debt Expense	3,050	-
Depreciation Expense	<u>907</u>	<u>939</u>
Total Occupational Therapy	72,457	94,511
Speech Therapy		
Contractual Services	6,814	6,665
Supplies	<u>46</u>	<u>-</u>
Total Speech Therapy	6,860	6,665
Barber and Beautician		
Workers' Compensation Insurance	100	179
Supplies	358	312
Contracted Services	8,654	8,715
Depreciation Expense	<u>139</u>	<u>139</u>
Total Barber and Beautician	9,251	9,345
Social Services		
Salaries	97,475	91,168
Social Security	13,694	12,516
Hospitalization Insurance	8,471	19,392
Workers' Compensation Insurance	303	179
Life and Disability Insurance	748	759
Supplies	217	707
Employee Training and Improvement	<u>222</u>	<u>508</u>
Total Social Services	121,130	125,229

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
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YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>OPERATING EXPENSES</u> (CONTINUED)		
Adult Day Care		
Salaries	\$ 93,460	\$ 88,950
Retirement	8,088	4,795
Social Security	6,790	6,547
Hospitalization Insurance	21,186	19,392
Workers' Compensation Insurance	616	1,790
Life and Disability Insurance	321	108
Supplies	502	1,474
Printing and Binding	-	90
Raw Food	1,598	1,026
Client Meals	6,209	4,133
Memberships and Subscriptions	200	150
Contracted Services	2,550	
Communications - Telephone	276	301
Travel	287	5,869
Transportation	3,263	-
Advertising	2,287	1,437
Equipment Repairs and Maintenance	240	-
Rental - Building	36,000	36,000
Employee Training and Improvement	-	150
Depreciation Expense	1,883	2,346
Tobacco Grant Expenses	-	300
	<u>185,756</u>	<u>174,858</u>
Total Adult Day Care		
	185,756	174,858
Ancillary Services		
Dental	1,200	1,300
Miscellaneous		
Maintenance of Effort	105,313	163,714
Refunds and Other	14,441	18,003
Depreciation Expense	401	916
Miscellaneous	141	909
Professional Fees	-	-
	<u>120,296</u>	<u>183,542</u>
Total Miscellaneous		
	120,296	183,542
TOTAL OPERATING EXPENSES	<u>5,483,635</u>	<u>5,352,399</u>
Operating Income (Loss) Before Depreciation - Building	(393,337)	(336,484)
Less Depreciation - Building	<u>(80,072)</u>	<u>(81,167)</u>
OPERATING INCOME (LOSS)	(473,409)	(417,651)

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2003 AND 2002

Schedule 1

	<u>2003</u>	<u>2002</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Interest Revenue		
Interest	\$ 113,655	\$ 49,989
Property Tax Revenue	1,051,974	-
Workers' Compensation Dividend	-	27,463
Rental Income		
Building	36,000	36,000
Equipment	<u>-</u>	<u>-</u>
Total Rental Income	36,000	36,000
Other		
Other	-	1,673
Intergovernmental Transfer In	7,510,679	8,429,376
Intergovernmental Transfer Payment	(7,410,609)	(8,231,649)
Intergovernmental Transfer Management Fee	<u>(2,231)</u>	<u>(1,696)</u>
Total Other	<u>97,839</u>	<u>197,704</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	1,299,468	311,156
<u>OTHER FINANCING SOURCES (USES)</u>		
Operating Transfer In from County	-	85,000
Contributions from Saginaw Chippewa Indian Tribe	21,617	69,245
Private Donations	<u>20,403</u>	<u>19,353</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>42,020</u>	<u>173,598</u>
NET INCOME (LOSS)	868,079	67,103
RETAINED EARNINGS - OCTOBER 1	<u>4,160,635</u>	<u>4,093,532</u>
RETAINED EARNINGS - SEPTEMBER 30	<u>\$ 5,028,714</u>	<u>\$ 4,160,635</u>

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED SEPTEMBER 30, 2003

Schedule 2

	Balance 09/30/02	Additions	Deductions	Balance 09/30/03
<u>Patient Agency Fund</u>				
ASSETS				
Cash and Investments	<u>\$ 577</u>	<u>\$ 2,518</u>	<u>\$ 2,356</u>	<u>\$ 739</u>
LIABILITIES				
Due To Patients	\$ 468	\$ 2,017	\$ 1,899	\$ 586
Due To Medical Care Facility Operating	<u>109</u>	<u>501</u>	<u>457</u>	<u>153</u>
TOTAL LIABILITIES	<u><u>\$ 577</u></u>	<u><u>\$ 2,518</u></u>	<u><u>\$ 2,356</u></u>	<u><u>\$ 739</u></u>





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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

February 3, 2004

Family Independence Agency Board  
Medical Care Facility  
Isabella County, Michigan

We have audited the financial statements of Medical Care Facility, Isabella County, as of and for the year ended September 30, 2003, and have issued our report thereon dated February 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Medical Care Facility in a separate report entitled Audit Communications and Report of Comments and Recommendations dated February 3, 2004.

Family Independence Agency Board  
Medical Care Facility  
Page 2  
February 3, 2004

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS

February 3, 2004

Family Independence Agency  
Board of Directors  
Isabella County Medical Care Facility  
Mt. Pleasant, MI 48858

We have recently completed our audit of the financial statements of Isabella County Medical Care Facility for the year ended September 30, 2003. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE  
UNITED STATES OF AMERICA**

We conducted our audit of the financial statements of Isabella County Medical Care Facility in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.



For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

#### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

#### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have the following related to the above to report at this time:

##### **Estimates**

Management estimates that 65 percent of the remaining prior year outstanding outpatient physical therapy receivables and 20 percent of the current year are considered to be uncollectible. Management also estimates that \$15,000 of the Inpatient receivable is also uncollectible.

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COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/  
COMPLIANCE/EFFICIENCY

Our procedures disclosed the following additional condition that we would like to bring to your attention.

INVENTORY

During the test of Inventories it was noted that the actual count of several items was less than the count shown on the inventory computer system. It is recommended that a physical inventory be taken to make sure that the system count matches the actual count and that better controls be established to ensure that the computer count can be relied upon. (Repeated Comment)

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Isabella County Medical Care Facility financial statements and this communication of these matters does not affect our report on the Isabella County Medical Care Facility financial statements, dated February 3, 2004.

SUMMARY

We would like to thank the Isabella County Medical Care Facility personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

*Page, Olson & Company*